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STARTING A SMALL BUSINESS?

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A HANDBOOK FOR PROSPECTIVE BUSINESS-OWNERS

State Office of Minority Business Assistance

MASSACHUSETTS DEPARTMENT OF COMMERCE AND DEVELOPMENT

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LOOK BEFORE YOU LEAP

(IS RUNNING A BUSINESS RIGHT FOR YOU?)



Is running a business the thing for you to do? How does one start a business?

First of all you have to take inventory of yourself. Are you the type of person who would make a good entrepreneur?

- * Research has shown that a successful entrepreneur is typically a person who is happy working on his/her own. There are many lonely decisions to make in running a business. One does not find out whether they are good decisions or bad decisions until weeks or months later. Risks are taken and it can be pretty lonely waiting to see what happens.
- * A person who hates to be bothered with details does not make a good entrepreneur. There are a great deal of details involved in starting a business. The entrepreneur has to enjoy planning, organizing, anticipating difficulties, and figuring ways of working around obstacles. A good indication of a person's organizational ability is whether he has a good record of getting things done on time.
- * To be successful, an entrepreneur has to be a leader. He has to be able to get his employees, his customers, his suppliers, and the public at large to behave in a way he wants them to behave without incurring their resentment. He inspires trust in others.
- * Having a firm grip on reality is another indispensable quality in a businessperson. We often describe a person possessing this quality as one who "has good common sense." He is not the kind of person who tends to distort, exaggerate or minimize a situation.

If you have decided that you are the type of person who would make a good entrepreneur, then you should begin to ask whether there is a market for your product or service. In other words is there a big enough group of people who want your service or product where you are going to sell it, the way you are going to sell it, and at the price you are going to sell it? Remember too, this market may

be seasonal, (for example ice-cream or skis) with most sales concentrating in certain months of the year, in which case you will have to think about how you are going to survive the rest of the year. You should also ask whether this market is a growing one or a declining one. You don't want to enter an industry which is dying. One way to find out more about the market is to study your potential competitors. If they are doing very well, you probably have a good chance of doing well. Then of course, you have to think about how you are going to lure his customers away from him, whether by an edge of location, price, flexibility, image, or extra service.

Speaking about the marketplace, you should realize that selling consumer products is much more difficult than selling a product or a service to business. When a man buys a cigarette, much of what he buys is not really the tobacco and the wrappings, but the image the cigarette give him. It takes an awful lot of money to build up that image. When a woman goes shopping she goes to a place that is pleasant and makes her feel good about herself. Again, providing such a place takes a lot of money. Moreover, over the period of years, consumers have built up brand loyalties and shopping habits, which are very hard to change, making it very difficult for a new business. Whereas selling to businesses or to governments, you are competing more or less on price and service, factors which are much easier to manipulate.

Having decided that you are entrepreneurial material, and that you have a market, you then should ask yourself whether the present is a good time to start your business. Are all your personal affairs in good order? Do you have a basic knowledge of accounting? (If you don't you should take some classes, otherwise you will have difficulty controlling the money and you won't be able to understand your accountant and your banker.) Do you have a thorough knowledge of the business you are going into? (If you don't, you must work for someone else in that line of business first, so that you can learn and make mistakes at someone else's expense, not your own.) Do you have at least 25% of the money needed? (Nobody is going to lend you the entire amount. If they do, it will be too easy for you to scoop it up and declare bankruptcy.)

If after searching your soul, you answer in the affirmative to all of the above questions--Congratulations, you have all the makings of a good businessperson! It does not guarantee you success. Nothing will do that. There will always be an element of luck. But the gods are on your side.

DO I HAVE TO REGISTER MY BUSINESS?

WHAT KINDS OF REGISTRATION YOU HAVE TO FILE, WHAT KINDS OF RECORDS YOU HAVE TO KEEP, AND WHAT KINDS OF TAXES YOU HAVE TO PAY, DEPENDS TO A LARGE EXTENT ON WHETHER YOUR BUSINESS IS GOING TO OPERATE AS A SINGLE PROPRIETORSHIP, A GENERAL PARTNERSHIP, A LIMITED PARTNERSHIP, AN ORDINARY CORPORATION, OR A SUB-CHAPTER "S" CORPORATION. (SEE PAGE 17, "SHOULD YOU INCORPORATE?" FOR AN EXPLANATION OF THE DIFFERENCES AMONG THE DIFFERENT LEGAL FORMS OF ORGANIZATION). THAT IS WHY YOU PROBABLY WANT TO CONSULT A LAWYER AND AN ACCOUNTANT BEFORE YOU DECIDE ON YOUR FORM OF BUSINESS ORGANIZATION.

IF YOUR BUSINESS IS GOING TO BE A SINGLE PROPRIETOR OWNED BUSINESS UNDER YOUR OWN NAME, YOU NEED NOT BE BOTHERED WITH REGISTRATION.

IF YOUR BUSINESS IS GOING TO BE A SINGLE PROPRIETORSHIP UNDER SOME OTHER NAME, (E.G. "QUALITY PLUMBING"), YOU HAVE TO REGISTER WITH THE TOWN OR CITY IN WHICH YOU OPERATE. THIS IS WHAT IS COMMONLY KNOWN AS A "DBA" (DOING BUSINESS AS).

IF YOUR BUSINESS IS GOING TO BE A GENERAL PARTNERSHIP, YOU WILL HAVE TO REGISTER WITH THE TOWN OR CITY IN WHICH YOU WILL OPERATE.


IF YOUR BUSINESS IS GOING TO HAVE ANY LIMITED PARTNERS, YOU WILL HAVE TO REGISTER WITH THE MASSACHUSETTS SECRETARY OF STATE'S OFFICE LOCATED AT 1 ASHBURTON PLACE, (MC CORMACK STATE OFFICE BUILDING) 17TH FLOOR, BOSTON.

IF YOUR BUSINESS IS GOING TO BE A CORPORATION, YOU HAVE TO FILE CORPORATION PAPERS WITH THE SECRETARY OF STATE'S OFFICE AT 1 ASHBURTON PLACE (MC CORMACK STATE OFFICE BUILDING) 17TH FLOOR, BOSTON. THEY PUBLISH A PAMPHLET CALLED "HOW TO ORGANIZE A BUSINESS CORPORATION" THAT SHOULD BE HELPFUL TO YOU).

YOU NEED TO REGISTER WITH THE U.S. INTERNAL REVENUE SERVICE AND GET AN EMPLOYER'S I.D. NUMBER IF YOUR BUSINESS IS GOING TO BE A PARTNERSHIP OR A CORPORATION REGARDLESS OF WHETHER YOU ARE PLANNING TO HAVE EMPLOYEES, AND IF YOUR BUSINESS IS GOING TO BE A SINGLE PROPRIETORSHIP WITH EMPLOYEES.

YOU WILL NEED A NUMBER FROM THE MASSACHUSETTS DEPARTMENT OF REVENUE TO COLLECT SALES TAXES OR BE EXEMPTED FROM PAYING SALES TAXES.

YOU SHOULD ALSO CHECK WITH THE LOCAL CITY/TOWN HALL AND THE STATE DIVISION OF REGISTRATION (617 727-3076) TO SEE IF YOU NEED A LICENSE FOR THE LINE OF BUSINESS YOU PLAN TO BE IN.



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TAXES & INSURANCE

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TAXES

BELOW IS A LIST OF BUSINESS TAXES YOU SHOULD BE CONCERNED ABOUT, ALTHOUGH SOME OF THEM MIGHT NOT APPLY TO YOUR PARTICULAR BUSINESS:

- SOCIAL SECURITY TAXES
- FEDERAL UNEMPLOYMENT TAX
- FEDERAL CORPORATION INCOME TAX
- FEDERAL HIGHWAY USE TAX
- STATE SALES TAX
- STATE UNEMPLOYMENT TAX
- STATE MINIMUM CORPORATE TAX
- STATE MEALS TAX
- STATE EXCISE TAX
- LOCAL PROPERTY TAX

INSURANCE

BELOW IS A LIST OF INSURANCE COVERAGES YOU MIGHT CONSIDER. THEY ARE LISTED IN THEIR ORDER OF IMPORTANCE:

- WORKER'S COMPENSATION - MANDATORY
- AUTOMOBILE INSURANCE - MANDATORY
- LIABILITY INSURANCE - ESSENTIAL
- FIRE INSURANCE - ESSENTIAL
- BUSINESS INTERRUPTION INSURANCE - DESIRABLE
- CRIME INSURANCE - DESIRABLE

- GROUP LIFE INSURANCE FOR YOU AND YOUR EMPLOYEES
- GROUP HEALTH INSURANCE FOR YOU AND YOUR EMPLOYEES
- DISABILITY INSURANCE FOR YOU AND YOUR EMPLOYEES
- KEY-MAN INSURANCE
- FIDELITY BOND

CONSULT A CHARTERED PROPERTY CASUALTY UNDERWRITER (C.P.C.U.) FOR YOUR INSURANCE COVERAGE. A C.P.C.U. IS AN INSURANCE AGENT WHO HAS DEMONSTRATED HE IS KNOWLEDGEABLE IN ALL ASPECTS OF INSURANCE BY PASSING THROUGH SEVERAL DIFFICULT STATE EXAMS, AND SHOULD BE QUALIFIED TO ADVISE YOU.

A BOOKLET CALLED "INSURANCE CHECKLIST FOR SMALL BUSINESSES" (#148) IS AVAILABLE FREE FROM THE SMALL BUSINESS ADMINISTRATION BY CALLING A TOLL FREE NUMBER 1-800-433-7212.

LAWYERS & ACCOUNTANTS

LAWYERS

He/she can help you decide on a legal form of organization.

He can help you draft your corporation papers and file them for you.

He can draw partnership agreements for you.

He can help you obtain licenses, esp. food, liquor licences, and DPU rights.

He can help review and negotiate your lease.

If you are buying a business, he can help you review and negotiate the purchase-sale agreement.

He can review various laws and regulations to see which sections apply to your business.

ACCOUNTANTS

Get an accountant before you go into business to help you set up a good recordkeeping system.

If you are buying a business, have an accountant give you a financial evaluation of the business you are buying.

He/she can help you write financing proposal.

He can help you project your profit and your cash flow.

Once you are in business, he can help you prepare periodic financial statements to give you important information about your business.

He can help you prepare your tax returns.

HOW DO I FIND A GOOD LAWYER/ACCOUNTANT?

The best way to find a good lawyer or a good accountant is to ask someone who is in business to recommend one.

SOURCES OF INFORMATION

FEDERAL GOVERNMENT

SMALL BUSINESS ADMINISTRATION

150 Causeway St.
Boston, Ma. 02114

For "Pre-Business Workshop"
and direct consultation, call
the Management Division at 223-3192

For loan guaranty program and
SBA sponsored equity financing,
call the Finance Division at 223-3201

For assistance in selling to the
Federal government, call the
Source Referral Program at 223-3162

DEPARTMENT OF LABOR
JFK Federal Building
Boston, Ma. 02203

For wage and hour laws, call
the Wage and Hour Division at 223-6751

For health and safety requirements,
call OSHA at 223-6712

INTERNAL REVENUE SERVICE
JFK Building
Boston, Ma. 02203

For the "Business Tax Seminar"
and for simple questions,
call 523-1040

For questions that are complicated,
visit your IRS regional office

For tax forms, call 367-1040 in Boston,
1-800-892-0288 outside Boston.

DEPARTMENT OF COMMERCE
441 Stuart St.
Boston, Ma. 02116

For export assistance, call the
International Trade Division at 223-2314

For demographic and economic surveys,
call the Census Bureau at 223-0668.

GOVERNMENT BOOKSTORE
JFK Building
Boston, Ma. 02203

For Federal publications, call
223-6071

For general information at the Federal level, call (617) 223-7121, Boston

STATE GOVERNMENT

SECRETARY OF THE STATE OFFICE
One Ashburton Place
Boston, Ma. 02108

For information about incorporation call the Corporations Division at 727-9640

For information on state regulations, call the Citizen Information Service at 727-7030 in Boston, or 1-800-392-6090 outside Boston.

DEPARTMENT OF REVENUE
100 Cambridge St.
Boston, Ma. 02202

For state tax number and sales excise tax, call the Sales Excise Tax Bureau at 727-4490.

For local tax exemption on tangible property, call 727-4231.

For Employment Opportunity Incentive and 3% Investment Tax Credit, as well as loss carry-over for new corporations, call the Bureau of Corporations at 727-4274.

DEPARTMENT OF COMMERCE AND DEVELOPMENT
100 Cambridge St.
Boston, Ma. 02202

For assistance in locating available industrial buildings/spaces, call the Office of New Business Development at 727-3210.

For tax inducement for corporations to establish business in urban areas, call the Urban Job Incentive Bureau at 727-3210.

For the Small Business Purchasing Program or for special assistance to minority businesses, call the State Office of Minority Business Assistance at 727-8692.

For financial assistance in training new employees, call the Massachusetts Employer's Training Assistance Program at 727-5549 or 727-5370.

DIVISION OF REGISTRATION
100 Cambridge St.
Boston, Ma. 02202

For state permits and licenses, call 727-3076.

DIVISION OF EMPLOYMENT SECURITY
Charles F. Hurley Building
Government Center
Boston, Ma. 02114

For unemployment insurance,
call 727-6777.

For the WIN Program, subsidized employment
of the unemployed, call 727-7086.

For information on labor market, call
the Director of Labor Market Research
at 727-6556

For assistance in finding employees,
call your local DES job center.

INDUSTRIAL ACCIDENT DIVISION
100 Cambridge St.
Boston, Ma. 02202

For information about workmen's
compensation insurance, call 542-5080.

DIVISION OF INSURANCE
100 Cambridge St.
Boston, Ma. 02202

For information and complaints
about automobile, fire, and other
insurance rates and claims, call
the Consumers Service Section at
727-2947, 727-5853, or 727-2983.

DEPARTMENT OF LABOR AND INDUS-
TRIES
100 Cambridge St.
Boston, Ma. 02202

For wage and hour laws, call 727-3476.

For health and safety requirements,
call 727-3460.

MASSACHUSETTS TECHNOLOGY
DEVELOPMENT CORPORATION
10 Lakeside Office Park
Wakefield, Ma. 01880

For technical assistance and start-up
capital to small, innovative technology
firms, call 246-1250.

For information on various state-sponsored financial assistance
programs for business, look under the section of this handbook
entitled "Financing Sources."

For information regarding other state agencies and state regulations,
call the State Citizen Information Service at 727-7030 in Boston,
or 1-800-392-6090 outside Boston.

LOCAL GOVERNMENT

Zoning requirements, property tax information, local licenses (sometimes in addition to state and/or federal licenses), business permits, the Business Certificate (also called a DBA for "Doing Business As") and regulations pertaining to health, safety, building code and so on. Many of these regulations are governed by State law but administered at the local level.

CHAMBERS OF COMMERCE

For contacts with people in related businesses who know about local conditions. The Boston Chamber of Commerce can provide a list of all local chambers as well as lists of business and trade associations and major industrial parks.

TRADE ASSOCIATIONS

Whatever business you plan to be in, there probably is an association you can join to meet up with other people in the same business to share information. Most trade associations have some kind of newsletter or journal to inform the membership of changing market trends, Federal and state regulations, and of innovations in the industry. Some associations also develop management tools (for example, standard forms), and run seminars for their members.

LIBRARIES

Libraries are not only for school children. Don't overlook this important business resource. A trip to the Kirstein Business Library in Boston (next to the Old City Hall) or any of the libraries connected to universities with a graduate school of management will yield you important facts and figures regarding the business you plan to enter.

Financing can come in the form of a loan (debt financing) or the sale of a share of your business (equity financing).

- I. **CONVENTIONAL BANK LOAN:** For a new venture you need a good business plan and at least 50% of the needed capital. Contact any commercial bank.
- II. **SBA GUARANTEED BANK LOAN:** For a new venture you will need a good business plan and at least 25% of the needed capital. Contact any commercial bank.
- III. **EQUAL OPPORTUNITY LOAN FOR MINORITIES FROM THE SMALL BUSINESS ADMINISTRATION:** For a new venture, you need a good business plan and at least 20% of the needed capital, and turned down by two banks. The loan amount is limited to \$50,000.
- IV. **OTHER CONVENTIONAL SOURCES:** Finance companies (usually high interest), credit unions (for small amounts), re-mortgaging of your home, loan against life insurance, loan secured by accounts receivable (factoring), loan against inventory, credit cards, friends and relatives.
- V. **SELLING PART OF THE BUSINESS TO A VENTURE CAPITAL COMPANY:** Venture capital companies seek an annual return of 15% or more on their business. They are looking for the next Xerox or McDonald's. But a venture capital company supported by SBA, called SBIC, is slightly less stringent. An SBIC specializing in Minority Businesses is called a MESBIC. There is a MESBIC in Massachusetts called Massachusetts Venture Capital Corporation, Charles Grigsby (617) 426-0208, Boston.
- VI. **FOR FIXED ASSETS (Land, building and equipment):** You might be able to get a LOCAL DEVELOPMENT CORP. loan. This is available primarily to manufacturing plants in high unemployment areas. Examples of LDC's are: Massachusetts Business Development Corporation in Boston, Pioneer Valley Business Development Center in Springfield. For a list of the LDC's in your area, call the 502 Section of the Small Business Administration.

For fixed assets in Massachusetts, you might be able to take advantage of the Massachusetts Industrial Finance Agency (MIFA), a new public program that guarantees loans and mortgages, as well as issues industrial revenue bonds for land, buildings and equipment of businesses providing they meet certain criteria. They are especially interested in manufacturing, recreational, warehousing, or research and development enterprises. Call MIFA at 723-4242 in Boston.

- VII. **FOR ECONOMICALLY DEPRESSED AREAS:** Financing is available in the form of debt and equity from COMMUNITY DEVELOPMENT CORPORATIONS (CDC). The CDC's get their funds from the Community Services Administration and the Economic Development Corporation.

Starting in 1978 \$10 million has been made available to these CDC's in Massachusetts. A COMMUNITY DEVELOPMENT FINANCE CORPORATION of Massachusetts was established to raise the \$10 million in government bonds to administer the program. This money is available to CDC's, to individual businesses sponsored by CDC's and to CDC business co-ventures. If the applicant is an individual business, the CDC which sponsors it is required to maintain some control over the business. New CDC's can be formed where none are in existence. The purpose of the program is to maintain or increase employment in economically depressed areas.

Interested parties should call Mr. Matthew H. Hobbs, President of the Community Development and Finance Corporation in Boston at (617) 742-0366, or contact any of the local CDC's such as the Greater Roxbury Development Corporation (617) 445-4242.

ELEMENTS OF A GOOD FINANCING PROPOSAL

WHAT KIND OF INFORMATION SHOULD YOU HAVE WITH YOU WHEN YOU GO IN TO TALK WITH THE BANKER OR OTHER FINANCIERS ?

1. INFORMATION ABOUT YOUR PROPOSED MARKET; WHO YOUR CUSTOMERS WILL BE, WHY THEY WILL BUY FROM YOU, HOW YOU ARE GOING TO ATTRACT THEM.
2. INFORMATION ABOUT THE OPERATION: LOCATION, HOURS, STAFFING.
3. INFORMATION ABOUT YOURSELF: WHAT QUALIFIES YOU TO RUN THE BUSINESS (A RESUME SHOULD HELP), WHAT IS YOUR PERSONAL FINANCIAL SITUATION.
4. A LIST OF THE START-UP COSTS (IT WILL HELP IF YOU HAVE QUOTES FROM VENDORS OR SUPPLIERS OF MAJOR EQUIPMENT).
5. REASONS WHY YOU NEED FINANCING: WHAT YOU ARE GOING TO USE THE MONEY FOR.
6. A BEGINNING "BALANCE SHEET" --- SHOWING WHAT YOU WILL OWN (ASSETS) WHAT YOU WILL OWE (LIABILITIES), AND WHAT IS THE BALANCE (NET WORTH) ON THE FIRST DAY OF BUSINESS, ASSUMING THE FINANCING IS APPROVED.
7. A "PROFORMA CASH-FLOW STATEMENT" --- SHOWING HOW MUCH CASH YOU EXPECT TO FLOW INTO THE BUSINESS AND HOW MUCH CASH YOU EXPECT TO FLOW OUT OF THE BUSINESS, AND FOR WHAT REASONS, FOR EACH OF THE NEXT TWELVE MONTHS. SOME FINANCIERS MAY ASK FOR PROJECTION FOR TWO YEARS.
8. A "PROFORMA INCOME STATEMENT" --- SHOWING HOW MUCH PROFIT YOU EXPECT TO MAKE AT THE END OF A YEAR. (THIS IS CALCULATED BY SUBTRACTING ALL THE EXPENSES FROM SALES). AGAIN, YOU MAY BE ASKED FOR TWO YEARS' PROJECTION.
9. IF YOU ARE BUYING A BUSINESS, THE INCOME STATEMENT OF THE BUSINESS FOR THE LAST FEW YEARS, INFORMATION ON WHY IT IS BEING SOLD, AND WHY YOU WILL BE ABLE TO MAKE IT PROFITABLE.
10. SOME INFORMATION ON YOUR BUSINESS PLAN 12 AND 14 MONTHS FROM NOW.

Allow at least two weeks to develop a good financing proposal for a small business. You probably want to consult an accountant and have him check over your figures before you submit the proposal. The proposal will be judged according to the soundness of the business idea, whether the projections are realistic, and whether it is in line with the investment philosophy of that particular banker or organization. A judgment is also made on whether he (they) thinks you are entrepreneurial material.

Then comes the weeks, often months of waiting.....

A CHECKLIST

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(QUESTIONS YOU SHOULD ASK YOURSELF--
THE SAME QUESTIONS THE BANK WILL PROBABLY ASK YOU.)

A MARKET

- What is your product or service?
- Who are your customers?
- Are people buying more of this product/service or less and less?
- What is the age, sex, income level, life style, needs and taste of your customers? (Can't sell too many refrigerators to Eskimos)
- How much are they willing to pay for your product/service?
- Do People absolutely need it, or is it something they can do without?
- Is there a steady demand for it throughout the year, or is it seasonal?
- Does the style in the product/service change rapidly? Can you adapt as readily?
- How will people know about you and your product/service?
- How are you going to distribute it?
- Can you pretty much predict how many sales you will make on an average day, an average week, an average month?
- What is the image you will try to project in the marketplace?

THE COMPETITION

- Do you know the other people who are in this business?
- How do their profits look?
- How near in location is your nearest competitor?
- What makes you think their customers will leave them and come to you instead?
- How much are they selling the product/service for right now?
- Can you beat the big guys - (they buy in volume and have good credit lines with the suppliers, you know) - what kind of edge do you have over them?
- Would you be aware of new techniques that might make your business more efficient and more competitive?

LOCATION

- Is it where people would like to come to buy your product/service? Is it convenient and attractive?
- Are there parking spaces? Any problems with zoning laws?
- If you are renting or leasing it, would you be able to get a lease long enough to make it worthwhile for you to renovate the place?
- Would there be security problems? Do you know how much property insurance you would have to pay for the place a year?

Who is going to take care of the paper-
 to fill government forms, to
 answer inquiries, to file complaints,
 to file things away so that you can
 find things when you need them?

Who is going to answer the phone and
 take orders?

Who is going to take care of all the
 invoices, receipts, keep track of
 bills, customers' credit, pay the
 workers and do checkbook reconcilia-
 tion - can you trust him/her?

Who is going to decide the prices you
 are charging for the goods/services?

Who is going to keep track of inven-
 tory and supplies so that you do
 not overstock or run out of stock?

Who is going to do the buying and
 selling?

Who is going to make sure that the
 quality of your goods/services is
 consistently good, so that you do
 not lose your customers?

Who is going to make sure debts owed
 you are collected?

What happens if you or your key
 employee(s) are hospitalized?

If you are going to have a partner,
 have you worked together before?
 Can you trust him? Are you confi-
 dent he would hold his end up?

What kind of people are you going to
 hire, are you willing to pay the
 salary that will attract them?

Can you get people to work without
 making them resentful?

(You know very well that merely
 paying a person does not guaranty
 he/she will show up on time, and
 will do the work conscientiously.)

How are you going to make sure that
 your employees do not cheat you?

How are you going to train your
 employees?

How are you going to keep your
 good employees?

Do people trust you as a rule?

Are you the type of person who
 gets things done on time?

Are you willing to take risks?

Do you have the energy to do the lift-
 ing, hauling, standing, smiling, and
 talking?

Are you willing to do dirty or "ungla-
 morous work" such as scrubbing the
 floor, if necessary?

Have you sold the idea to your husband/
 wife, is he/she willing to put up
 with late dinners?

Are you willing to work 12 to 16 hours
 a day, and weekends too, if
 necessary?

Can you take being turned down, can you
 keep your cool when things go wrong?

When things go wrong, do you always
 try to find out why, instead of get-
 ting angry?

Do you enjoy "wheeling and dealing,"
 or do you detest it?

Do you project a good professional
 image?

Do you have a basic knowledge of ac-
 counting? Do you understand terms
 such as asset, liability, net worth,
 overhead, depreciation, profit mar-
 gin, operating ratio, accrued
 expenses, etc.? If you don't, you
 should take classes to learn them.

(You will need a clear understanding
 of these words to think through
 business problems, and to converse
 with your lawyer, accountant, as
 well as other businessmen/women.)

Do you have a good understanding of
 the business--the suppliers, the
 licensing requirements, union
 laws, insurance needs, etc.? If
 you don't it will be a good idea to
 work for someone else first.

Can you take advice from others, to
 change your mind whenever necessary,
 or are you the stubborn type?

CAPITAL

How much money does it take to start?

Have you taken into consideration equipment, furniture, renovation costs, all kinds of deposits and licenses, legal and accounting fees, insurance, advertising, initial inventory, packaging & delivery costs, life insurance premium connected with a loan, incorporation fees, rent, utilities, salary and fringe benefits, supplies, etc. and the fact that unexpected expenses always turn up?

(You should not figure on making a profit for the first two years.)

Would you have extra cushion to cover the periods between your order for new goods and supplies and the time your customers pay you?

(You should expect collection problems as well as bad debts.)

Do you know what is the turnover rate for this type of business?

Have you figured out the average yearly overhead (fixed costs) of your business?

Have you figured out how much it will cost you to sell each unit whether it is ice-cream cone or automobile?

(If you do not know, you will not know how much to sell them to make a profit, neither will you know how to forecast your cash flow.)

Where are you going to get the money to start the business?

(Friends, relatives, banks, MESBIC, SEA--you yourself should have at least 1/4 of the initial capital.)



WORKSHOPS / CLASSES

THE SBA PRE-BUSINESS WORKSHOP

The Small Business Administration holds pre-business workshops every 3rd and 4th Thursday of the month at the JFK Building in Boston. They last the whole day, include an orientation session and individual counseling. They are free of charge. Call SBA at (617) 223-3192.

THE IRS BUSINESS TAX SEMINAR

The Internal Revenue Service holds a seminar for business owners every 2nd and last Friday of the month at the JFK Building in Boston. The seminar covers federal tax requirements and is free of charge to participants. Call IRS at (617) 523-1040.

THE FOLLOWING ARE EXAMPLES OF PROGRAMS RUN BY STATE COLLEGES AND UNIVERSITIES. THEY ARE ALL HELD IN THE EVENING AND THE COSTS ARE EXTREMELY REASONABLE:

1. Bunker Hill Community College runs a series of "Small Business Conferences." They last from 6:30 to 9 p.m. and cost \$10 a session.

The subject of some of the conferences are:

"Using Your Accounting Records"	"Long and Short Term Financing"
"Managing for profits"	"Increasing Sales"
"Keeping Track of Costs"	"Promoting and Publicizing"
"Pricing for Profits"	"Advertising"

For a schedule of the conferences and registration by mail, call the Bunker Hill Community College at (617) 241-8600, ext. 444.

2. The University of Lowell holds a 4-session evening workshop on "How to Start a Small Business." They last from 7 to 9 p.m. and cost a total of \$45.00. Call the University of Lowell at (617) 452-5000, ext. 221.
3. Roxbury Community College runs a Small Business Management course every spring. It is held 6 - 8:40 p.m., one evening a week for 15 weeks. The cost is \$67.50. Call Roxbury Community College at (617) 445-3040, ext. 77.
4. Salem State College runs a Small Business Management course every Fall and Spring. It is held 7 to 9 p.m., one evening a week for 10 weeks. The cost is \$80.00. Call Salem State College at (617) 745-0556, ext. 231.
5. Southeastern Massachusetts University runs a Small Business Management course every Spring. It is held 7-9 p.m., one evening a week for 10 weeks. The cost is \$40. Call Southeastern Massachusetts University at (617) 994-9681.

Many other public and private colleges and universities, as well as adult educational centers run programs tailored to owners or prospective owners of small business. They are usually taught by people who have run their own business. Attending these classes will save you time in getting information and might help you avoid some expensive mistakes.

FREE PUBLICATIONS THAT WILL ASSIST YOU

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PUBLICATIONS OF THE U.S. SMALL BUSINESS ADMINISTRATION (SBA)

The Small Business Administration publishes all kinds of management aids on subjects ranging from "Stock Control for Small Stores" to "Outwitting Bad Check Passers". You may pick up a list of SBA publications and order form from the nearest Small Business Administration office (in Boston, it is at 150 Causeway Street, opposite the MBTA North Station), or call a toll free number, 800-433-7212.

Especially recommended are the following handbooks:

- "Insurance Checklist for Small Business" (#148)
- "Business Plan for Retailers" (#150)
- "Business Plan for Small Service Firms" (#153)
- "Business Plan for Small Manufacturers" (#218)

PUBLICATIONS OF THE U.S. INTERNAL REVENUE SERVICE

A Tax Guide for Small Business (Publication 334) can be sent to you by mail. A "Business Tax Kit" can be picked up at your nearest IRS office. The latter is also distributed at bi-monthly free seminars sponsored by the IRS. For more information, call:

Boston... 523-1040	Lowell.....957-4470
Brockton..580-1770	New Bedford.996-3111
Fitchburg.345-1031	Springfield.785-1201
Lawrence..682-4344	Worcester...757-2712

PUBLICATIONS OF THE MASSACHUSETTS SECRETARY OF STATE OFFICE

The Secretary of State Office has a whole range of publications on state regulations. The following brochures can be picked up free at the State House Bookstore or sent to you by mail if you write to State House, Room 116, Boston, Ma. 02133, enclosing 15¢ for shipping charge:

"What's in a Business Name?" - information on how to choose and protect your business name.

"How to Organize a Business Corporation" - Step by step outline for organizing a Massachusetts business corporation.

SHOULD YOU INCORPORATE?

One of the myths about business is that corporations are big companies. Not true. Anybody can form a corporation and call it Bob Jones, Inc. The same person can be the president, treasurer and clerk of the corporation. The only requirement in Massachusetts is that the person designated to be the clerk has to be a resident of the State.

THREE FORMS OF BUSINESSES: SINGLE PROPRIETORSHIP, PARTNERSHIP, CORPORATION

The **single proprietorship** is the simplest form of business. To form a single proprietorship, you just have to let people know that you are in business and file a form in the city you are going to do business in. You personally are responsible for all debts and other legal liabilities of your business. The income from your business is reported to IRS as part of your personal income and taxed accordingly.

A **partnership** is formed when two or more people decide to go into business together. In a partnership each partner is totally liable for whatever happens to the business, and for whatever the other partner does. A "limited" partner is liable only for the amount of money he invest in the business, but there has to be at least one general partner who is totally liable. Income from a partnership is reported to IRS as part of the partner's personal income and taxed accordingly.

In creating a **corporation**, you are "making up a new person". From then on, your business is like a person - it has an identity of its own, it has certain rights, it can sue and be sued, it has to file its own tax returns, etc. The ownership of a corporation is divided into "stocks" which are sometimes called "shares". The owners are called "stockholders". One person can own all of the stocks, in which case, there is only one stockholder. A stockholder meeting has to be held at least once a year to decide on how to manage the company and what to do about profits or losses. The profits can be reinvested in the business or distributed among the stockholders as "dividends". Control and profit division is proportional to the stocks held. The person who has 51% of the stocks will have 51% of the vote and receive 51% of the dividends.

ADVANTAGES OF A CORPORATION

1. **Limited Liability** - If your business is a corporation, your liability is only limited to the amount you invest in your business (except in the case of a loan for which you offer your personal guaranty). Therefore creditors and plaintiffs of lawsuits cannot go after your personal assets.

2. **Ease of raising Capital and Transferability** - Since owners of a corporation are liable only to the amount they invest, it is much easier to convince other people to invest in the business in exchange for a certain percentage of the profit. If one of the owner wants to pull out, all he has to do is to find someone to buy his share of the business. If any one of the owners dies, his heir inherits his share of the business. There is no interruption in the day-to-day operation of the business.

3. **Ease of Separating Ownership from Management** - The owners (or stockholders) of a corporation can decide they don't want to run the business themselves. They may decide to hire a professional manager to run it. If they don't like the manager, they can call a board meeting and fire him. The line between ownership and management can be clearcut.

4. **Tax Advantages in Some Cases** - A corporation is currently taxed at 17% of the first \$25,000 of profit, and 20% of the next \$25,000, 30% of the third \$25,000, 40% of the fourth \$25,000, and 46% of profit in excess of \$50,000. So, you see, the tax rate for corporations is very stiff. But to very rich people, their personal income tax rate may be higher than that, so they may want to keep the money in the corporation and not distribute it until they retire or die. Or they may want to keep the money in the corporation so that the value of their shares rise. When they sell their share, the profit they make is not taxed as "earned income" but as "capital gain," which is at a much lower rate.

DISADVANTAGES OF A CORPORATION:

1. **Double Taxation** - As described in Item 4 above, the taxes for the profits of a corporation is very high. That is not all, you will be further taxed when the profits come to you as dividends. However, there is a way to get around double taxation if your business has 10 or less stockholders. You can declare your business as a "Subchapter S corporation" in which case you will not have to pay corporate tax, and taxes are paid only as part of your personal income.

2. **Costs**; It takes \$400-\$1,000 to get incorporated. This includes filing and lawyers' fees. There are also some additional costs in doing business because you will be subjected to some regulations that cover corporations and not other forms of business.

THE STATE OFFICE OF MINORITY BUSINESS ASSISTANCE

IS IT NECESSARY?

- * Due to the denial of access to capital, managerial skills, and entrance to the market place in the past, there has historically been very little business development in the minority communities of this country.
- * The underdevelopment of business in the minority communities is one of the major causes of high unemployment and urban decay.
- * The absence of an entrepreneurial middle class has deprived the minority communities of an important source of leadership.
- * The underdevelopment of minority business, with the resulting high unemployment rate and lower purchasing power in the minority communities, act as a drag on the local economy, as well as the national economy.

THE STATE OFFICE OF MINORITY BUSINESS ASSISTANCE (SOMBA) SEEKS TO STIMULATE THE GROWTH OF MINORITY BUSINESSES IN MASSACHUSETTS BY:

- Seeking out business opportunities, both in the public and private sectors, for minority vendors and contractors.
- Informing minority businesses of State purchases and assisting them in selling to the State.
- Assisting other state agencies in establishing minority business purchasing programs.
- Identifying resources available to minority businesses and informing them of these resources.
- Establishing "small business management courses" in state colleges and universities and advertising the availability of these programs in the minority communities.
- Conducting seminars and training programs to upgrade the management skills of minority business owners and managers.

This handbook is prepared by Susan Chan Egan, Program Developer, State Office of Minority Business Assistance.

THE STATE OFFICE OF MINORITY BUSINESS ASSISTANCE (SOMBA) IS LOCATED AT 100 CAMBRIDGE STREET, 13TH FLOOR, TEL. (617) 727-8692.

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